

Environmental Accounting: Fiscal 2006 Results

Sanden calculates investments and expenses associated with environmental protection activities as part of its disclosure activities. We prepare this data based on our own system, which incorporates elements of the Ministry of the Environment's Environmental Accounting Guidelines.

Since fiscal 2003, we have been using JEPIX (Environmental Policy Priorities Index for Japan) for the purpose of measuring progress in our environmental programs. Using JEPIX makes it possible to combine Sanden's environmental impact with the impact of Group companies in Japan and overseas. With this information, we can determine priorities for each company's environmental activities and identify key environmental issues for the entire Group. This information is then incorporated in our environmental policies for each fiscal year.

Additionally, we began using material flow cost accounting in fiscal 2005 on a trial basis. By allowing us to use resources more productively, this accounting system makes it possible to simultaneously manage both corporate and environmental activities.

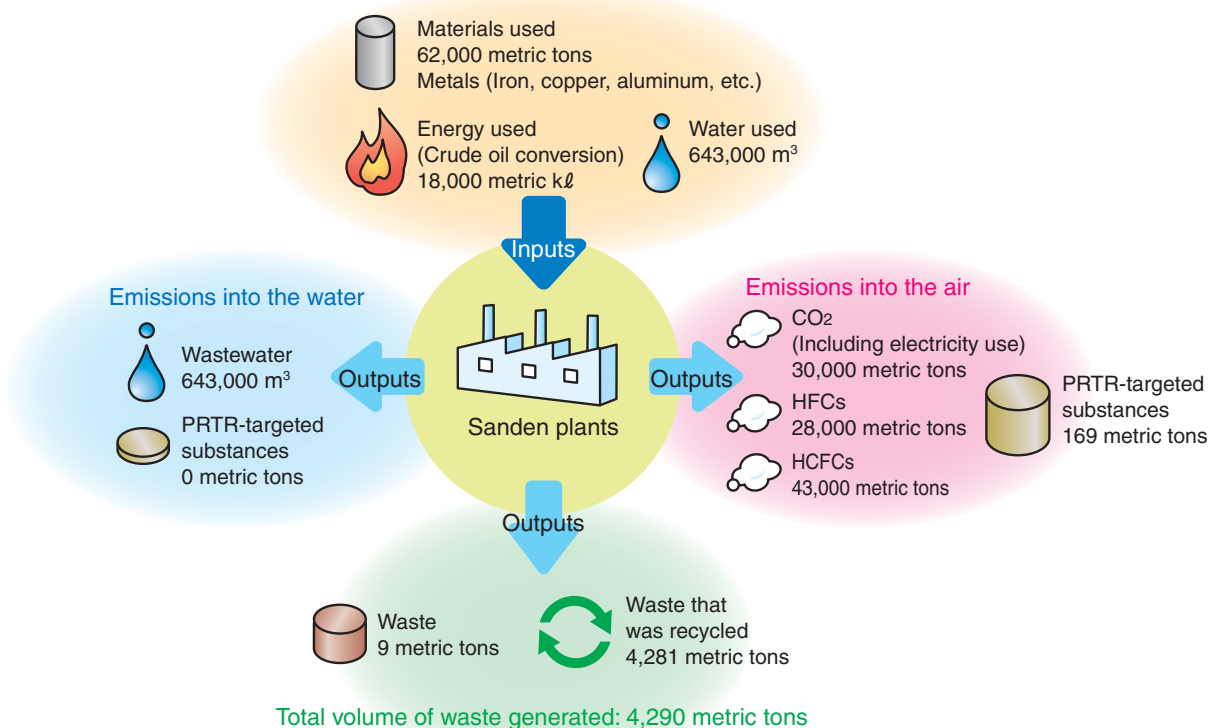
■ Environmental Costs

(100 Millions of yen)

| Classification | Major initiatives and effects (from guidelines) | Investment | Expense |
|---------------------------------|---|------------|---------|
| Business Area Costs | Costs associated with reducing the environmental impact that occurs within business areas (areas in which companies can directly manage their impact on the environment, including logistics and sales activities) as a direct result of production and service activities | 1.7 | 272.1 |
| Breakdown | Pollution Prevention Costs | 0.1 | 91.1 |
| | Global Environmental Preservation Costs | - | 32.4 |
| | Resource-Related Costs | 1.6 | 148.6 |
| Upstream/ Downstream Costs | Costs associated with green procurement and other measures to reduce the environmental impact of upstream activities and costs associated with measures to reduce the environmental impact of downstream activities, including use, consumption, and disposal of containers, packaging, and products manufactured and sold by the Company | - | 24.9 |
| Administration Costs | Costs associated with measures that contribute indirectly to reducing the environmental impact of business activities through the management of environmental preservation activities | - | 52.9 |
| R&D Costs | R&D costs related to environmental preservation, including relevant personnel costs and R&D investments | 56.5 | 1,363.5 |
| Social Activity Costs | Costs associated with social contribution activities that are not directly related to business activities and contribute to environmental preservation as well as costs associated with the provision of information and other efforts on the part of the Company to communicate with society | 6.8 | 9.8 |
| Environmental Remediation Costs | Costs related to the remediation of environmental damage caused by business activities, which as a result, are costs related to environmental preservation | - | - |
| Subtotal | | 65.0 | 1,723.2 |
| Total | | 1,788.2 | |

Volume of Main Resources Used at and Emissions from Plants

Sanden has calculated the volume of main resources used at plants and the volume of emissions from plants into the air and water in fiscal 2006.

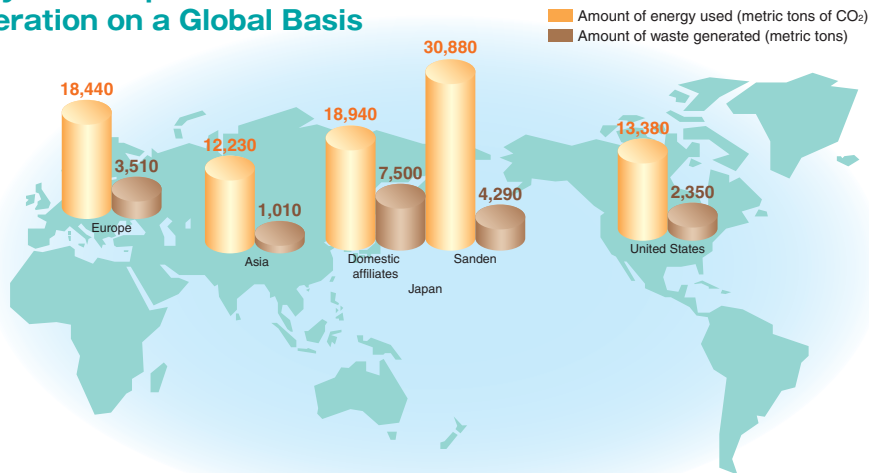


Global Environmental Accounting

The Sanden Group employs environmental accounting to obtain quantitative information, including on the amounts of energy used and waste generated and monetary information. This information is gathered and used in in-house information network and Internet postings, environmental reports created by individual companies every fiscal year, and environmental management documents and is utilized in the formulation of environmental policies.

Energy use is expressed as CO₂ equivalents as a standard index using the Ministry of the Environment's Environmental Activities Evaluation Program.

Sanden's Energy Consumption and Waste Generation on a Global Basis



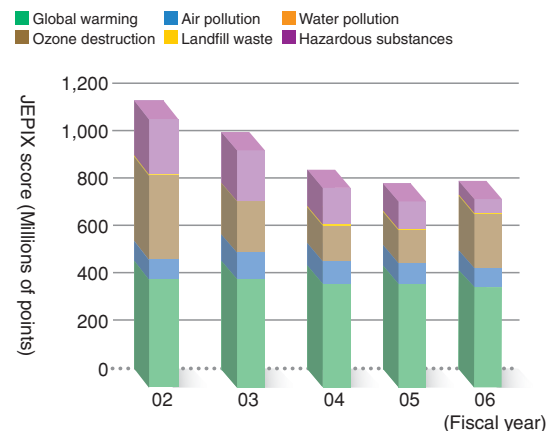
Using JEPIX to Assess Total Environmental Impact

In fiscal 2004, Sanden began using the Japan Environmental Policy Index (JEPIX) in the interest of adopting an index that is easier to understand and promoting the development of effective environmental preservation activities. The Company uses this single index to assess the total environmental impact of its offices.

In fiscal 2006, we worked to achieve environmental targets established with this index in mind. Despite activities including the replacement of chlorinated organic solvents used as degreaser with substitutes and enhanced recovery rates for CFCs used in experiments, our JEPIX score was 2% higher than in the prior fiscal year due to a year-on-year increase in CFC use. This was due to the large number of tests conducted to develop new products and technologies.

Although JEPIX is designed for use in Japan, Sanden is applying the index on a trial basis at its overseas subsidiaries to assess the environmental impact of their operations as well as improvements in environmental performance that these companies have achieved through environmental activities. In fiscal 2005, Sanden's global environmental impact was primarily attributable to hazardous substances.

Sanden's Environmental Impact (JEPIX)



Adoption of Material Flow Cost Accounting (MFCA)

In fiscal 2005, Sanden replaced its conventional environmental protection activities with an environmental management system. As part of this shift, we started using MFCA as one means of backing up our environmental management. In conjunction with this action, we began participating in the Joint Research Model Business for Adoption of MFCA by Large Companies, a program operated by Japan Management Association Consulting Co., Ltd., on behalf of the Ministry of Economy, Trade and Industry. We selected the compressor parts factory at the Akagi Plant as our model business.

MFCA identifies losses involving resources and energy that are

incurred during manufacturing processes. The cost of materials, processing, equipment depreciation, and other associated items is classified as "negative product cost." This makes it possible to calculate and analyze expenses based on comprehensive cost evaluations.

Through this trial, we are discovering many new sources of loss. Among them are loss from methods used to cut materials, loss from cutting and grinding processes, and loss resulting from time needed to start operations of new manufacturing equipment. We plan to incorporate the resulting improvements in our existing TPM program.

Material Flow Cost Matrix

| | Cost of materials | Cost of energy | Cost of systems | Total |
|---------------------------------------|-------------------|----------------|-----------------|-------|
| Finished products (positive products) | 16% | 10% | 49% | 75% |
| Material losses (negative products) | 9% | 3% | 13% | 25% |
| Total | 25% | 13% | 62% | 100% |